Don't treat innovation as a cure-all

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Abstract: The article reminds businesses not to treat innovation as a strategy or solution during a company's decline as it may drain an organization of resources and considers the role of innovation flexibility in surviving potential bankruptcy.

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Don’t Treat Innovation as a Cure-All

by William McKinley, Scott Latham and Michael Braun

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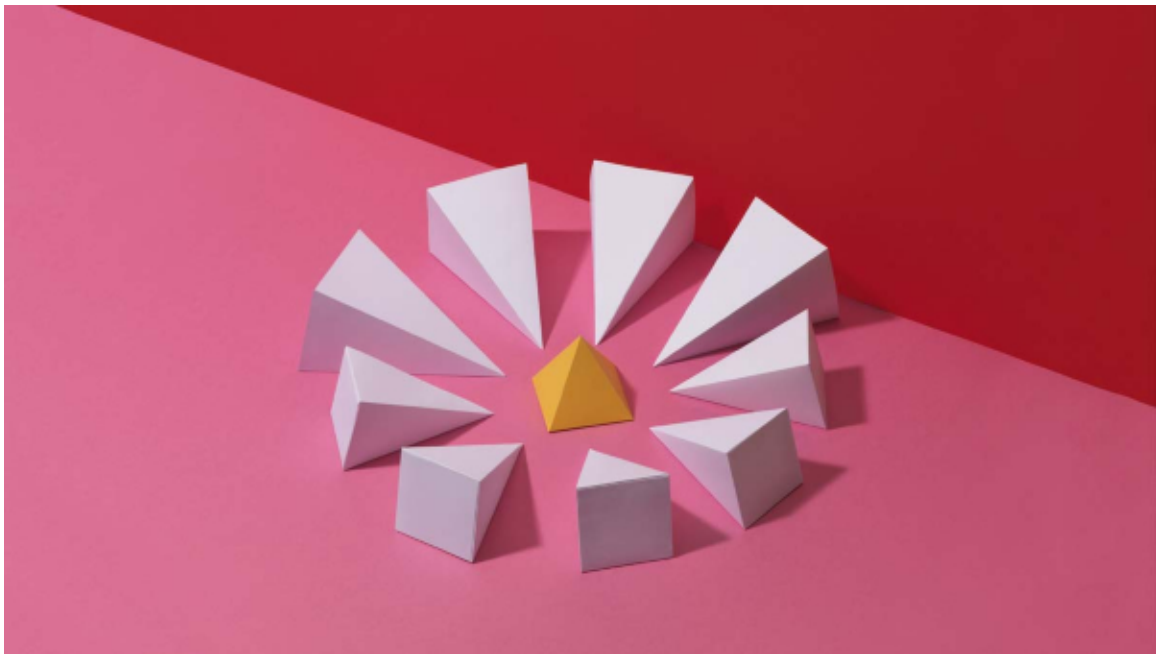

If your organization is declining, don’t expect innovation to be a cure-all. Sometimes innovation can accelerate a decline.

No one likes to say that. No one likes to ruin a good pep talk about a company’s future by pointing out innovation’s possible negative consequences. But they’re real, so why not talk about them?

In the corporate world the infatuation with innovation runs deep. Just about any idea for a new product or process can win management’s attention, and companies often follow through on

inventions in a spirit of experimentation — in fact there's a rich literature now on the value of taking an experimental, fail-quickly-and-fail-often mind-set.

But failure isn't to be taken lightly. Unsuccessful experiments are demoralizing and costly, draining an organization of critical resources, and they can hasten a company's decline. They set up a form of downward spiral, in which failure exacerbates performance weakness, leading to greater desperation for innovations, whose failure further worsens the situation.

And failure really does happen, probably a lot more often than most leaders realize. Products, processes, and firms that fail tend to drop off the radar screen, so there's a bias in the literature toward experiments and companies that ultimately proved successful. You can read endlessly about factors that appear to lead to success, but you'll rarely find a book or article on what causes failure.

One study that did explore this territory shows that a significant percentage of companies spiraling toward bankruptcy were characterized by extreme vacillations in strategy, suggesting that they were trying to innovate their way out of decline and were being driven toward increasingly risky experiments.

But it's still not clear what causes innovations to fail — indeed, empirical research to isolate the factors that lead to failure is potentially a gargantuan undertaking, given the vast variety in the types of companies, products, processes, and failures.

But the evidence suggests that *innovation flexibility* plays a powerful role.

When you put an invention out there or implement a new process, you really don't know what the consequences are going to be, and if the consequences are negative, an innovation with built-in flexibility stands a better chance of surviving than one that's inherently rigid.

Innovation flexibility is basically a measure of two things: how many configurations a product or process can take on after it's introduced, and how quickly it can be transfigured from one form to another. In other words, if it simply "is what it is," you better hope it's very good. And hope generally isn't a superior strategy.

Video games are examples of flexible innovations. It's impressive how Grand Theft Auto and Mortal Kombat make frequent changes to their characters and scripts after the games are on the market. Those changes allow the companies to adapt to consumers' changing tastes.

Some of the big software packages for managing corporate supply chains have proved to be good examples of inflexible innovation. The software solved a number of companies' supply-chain problems, but numerous customers found they couldn't adapt the packages to their particular needs.

Industries that take decades to produce massively expensive things like planes and ships often end up with products that are so inflexible they almost seem to invite failure, or at least major setbacks. In the 2000s, Airbus tried to stay ahead of competitors by pushing full-throttle on the $25 billion production of the A380, its biggest plane to date. Fast-forward to 2014 and the A380 is plagued by a multitude of design issues. Because post-production modifications are prohibitively expensive, Airbus is in the position of having to seek cooperation from airline customers and airports to modify gates and widen taxiways.

Of course, companies aren't always able to recognize that inflexibility is the cause of an innovation's lack of success. Because of cognitive limitations, we're all too quick to attribute failure to outside forces over which we have no control. If we work in a company with declining sales, we cite shifts in global markets. If we work in a university with decreasing enrollment, we point to demographic changes. Breaking out of that mind-set requires reminding ourselves that often we have a lot more control over situations than we at first assume.

Organizational decline is depressingly common, and turnarounds are relatively rare. Only about 30% of declining organizations are able to turn things around. That's because business is inherently uncertain, and all managers make mistakes. Misjudgments about innovations' consequences are inevitable. Managers pick the wrong inventions to implement or pick the wrong markets or operational contexts for them.

So innovating your way out of decline is a long shot to begin with, and the odds get even longer if you fail to ask a simple question about the implementation of an invention: "What then?" After the innovation hits the market or gets implemented in the company, will it have the flexibility to survive setbacks, and how quickly can it adapt?

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